
Iowa Legislative Fiscal Bureau

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Des Moines, IA 50319
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Iowa Lottery Administrative Expenses

ISSUE

The U.S. Census Bureau recently issued a report which ranked Iowa 7th in percent of Lottery revenues used for administrative expenses. This **Issue Review** examines Iowa Lottery revenues and expenditures, with emphasis on administrative expenses.

AFFECTED AGENCIES

Iowa Lottery Division

CODE AUTHORITY

Chapter 99E, Code of Iowa

BACKGROUND

The Iowa Lottery was created by the 1985 General Assembly in HF 225 (Division I). The first Lottery tickets were sold in October 1985. The Commissioner of the Iowa Lottery, The Iowa Lottery Board, and the Iowa Lottery Division have substantial autonomy in creating and marketing Lottery products. The purpose of the Iowa Lottery, as specified in Section 99E.9(1) is to "produce the maximum amount of net revenues for the State in a manner which maintains the integrity of the State and the general welfare of the people."

The U.S. Census Bureau annually reviews the revenues and expenditures of State lotteries. The June 1996, issue of Census and You contained a table showing lottery revenues and expenditures by state. Expenditures were divided into prizes, administration, and profit (See **Attachment A**).

CURRENT SITUATION

The FY 1994 Iowa Lottery data presented by the U.S. Census Bureau is summarized in the following table.

**Iowa Lottery FY 1994 Financial Information as Reported
by the U.S. Census Bureau**

	Amount	State Rank *
Revenues	\$ 185,653,000	25
Prize Expense	\$ 116,502,000	4
Administration	\$ 21,929,000	7
Profit to State	\$ 47,222,000	32
Population **	2,842,000	25
Per Capita Revenue **	\$ 65	28

* Rank among 36 states with lotteries in 1994. Revenues, population, and per capita lottery revenue are rankings based on a straight comparison to the other states. Prize, administration, and profit are ranked as a percentage of the State's lottery revenues.

** 1995 population and per capita calculation added for reference.

The Census Bureau research did not include the sales tax collected or compensation for ticket retailers in either the revenues or expenditures of the Iowa Lottery. The Bureau also appears to have included interest to the Lottery Fund as a negative administrative expense. It is assumed these adjustments are made to make the information comparable across state lotteries. Those adjustments make a significant impact on both the reported revenue and expenditures of the Iowa Lottery. Ignoring the State sales tax portion of a ticket price reduces Iowa sales \$9.9 million, while ignoring retailer compensation reduces Iowa sales and administrative expenses \$11.4 million. The Bureau's report does not provide sufficient information to allow for comparisons across lotteries when these items are included in revenues and expenditures. For this reason, the Census Bureau information should be used for reference only. Additional research is needed to draw conclusions relative to other state lotteries. The Bureau did not draw conclusions or provide analysis based upon the information presented in the article.

The Iowa Lottery does provide sufficient information to the Lottery Board on a monthly basis to allow percentage analysis of Iowa Lottery revenues and expenditures, both within and across fiscal years.

Financial Operation of the Iowa Lottery

Each month the Iowa Lottery determines on a Generally Accepted Accounting Principle (GAAP) basis the amount of funding available for transfer to other State funds as Lottery profits. The calculation factors involved in determining the amount to be transferred include:

- An amount equal to the Iowa sales tax is deducted from revenues and deposited in the State General Fund.
- Interest accrued to the Lottery Fund balance is added to revenues.
- Prize expenses are deducted from revenues.

- Administrative expenses, including compensation for retailers and vendors, salaries, rent, communications costs, advertising, ticket costs, etc., are deducted from revenues.
- An amount equal to several accounting adjustments is “retained” by the fund as an ending balance.
- By the 20th of the following month, remaining revenue is transferred to the State as Lottery profits.

Because of this calculation, increases or decreases in the first five items will impact the amount of profit reported by the Iowa Lottery. The following table shows the dollar amount of revenue and the dollar amount and percentage of expenditures for FY 1996 and FY 1986 through FY 1996. The percentage is of total revenue, including interest. Total expense percentages do not equal 100.0% due to changes in ending balances. Dollars are in millions, rows and columns may not add, due to rounding.

Iowa Lottery Revenues and Expenditures
FY 1996 and Total FY 1986 Through FY 1996

	FY 1986 Through FY 1996	Percent of Total Revenue	FY 1996	Percent of FY 96 Revenue
Beginning Balance	\$ -0.2		\$ 3.5	
Sales Revenues	1,789.9		190.0	
Interest	9.2		0.8	
Total Revenue	1,799.1		190.8	
Prizes	963.8	53.6	102.8	53.9
Administration	321.0	17.8	36.8	19.3
Sales Tax	76.3	4.2	9.0	4.7
Profit	434.4	24.1	42.4	22.2
Total Expense	1,795.5	99.7	191.0	100.1
Ending Balance	\$ 3.3		\$ 3.3	

Attachment B provides a time-series chart of the percentages of Lottery expenditures for each of the four expenditure categories. **Attachment C** provides the annual information in dollars.

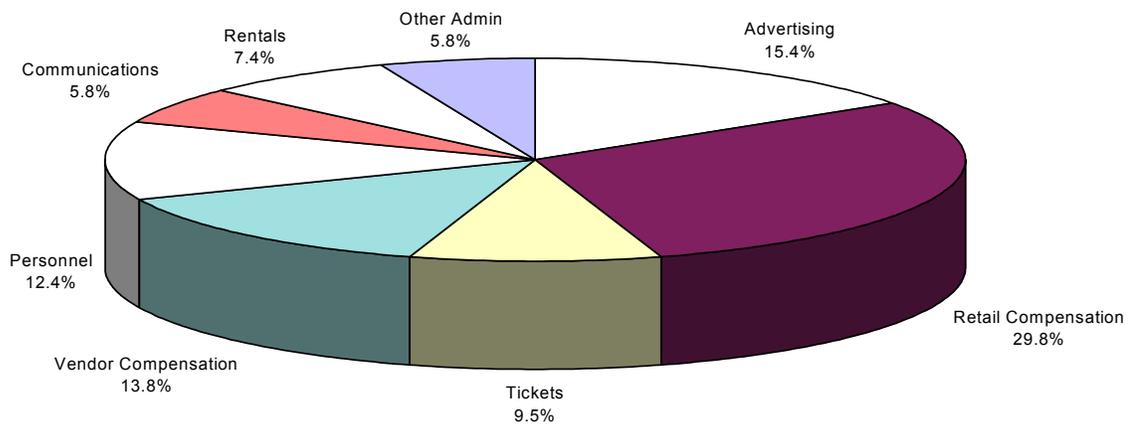
Administrative Expenses

The Administration and Regulation Subcommittee Appropriations Bill annually limits Lottery Division FTE position usage and the amount of lottery revenue that can be expended “for salaries, support, maintenance, (and for) miscellaneous purposes for the administration and operation of Lottery games...” The limit for FY 1996 was contained in SF 484, Section 20. With salary adjustment, the limit in FY 1996 was \$7,475,683. However, the Lottery Division also expends money directly from the Lottery Fund, and other administrative expenses are subtracted from Lottery revenues before deposit in the Lottery Fund. Lottery monthly financial reporting combines these sources of revenues and expenditures on a GAAP basis.

The following chart shows administrative expenses by major line-item. The percentages shown are of total administrative expenditures. **Attachment D** is a spreadsheet showing administrative expenses, and **Attachment E** is a listing of Iowa Lottery positions.

FY 1996 Lottery Administrative Expenses

Total Administrative Expenses = \$36.8 million



ALTERNATIVES

Through the appropriations process, the Administration and Regulation Appropriations Subcommittee could place restrictions on Lottery administrative expenses. The restriction could be a maximum amount, a percentage of sales, percentage of expenditures, or percentage of profits.

BUDGET IMPACT

If reducing administrative costs does not reduce Lottery sales, then each dollar in reduced administration would result in an additional dollar of Lottery profit. If sales were negatively impacted by reduced administration, the positive impact on Lottery profits would be lower, perhaps even negative.

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Iowa Lottery Administrative Expenses

ECONOMIC UPDATE

State Lotteries Gave \$15 Billion in Prize Money in 1994

Prize money from State lotteries totaled \$15.3 billion in 1994, according to data released via the Census Bureau's Web site. States took in \$26.6 billion.

All but 14 States have lotteries. Massachusetts paid out the most in prize money - \$1.7 billion.

Check out our Web site for State government revenues and expenditures. For each State, you get a detailed breakdown of where the revenue came from and how the money was spent. How much was spent on education? Crime prevention? Natural resources? This is the place to look.

Access our home page (www.census.gov), and select "Subjects A-Z," "Governments," and "State Government Finance Data by State," and then access the 1994 data.

For more information about the statistics, contact Henry Wulf, Governments Division (1-800-242-2184; hwulf@census.gov).

New Home Page!

The address hasn't changed, but our page is snazzier and easier to navigate. Parts are still under construction so the renovation isn't complete, but we hope you find your visit there more pleasurable. Our address is www.census.gov.

State-Administered Lottery Funds: 1994

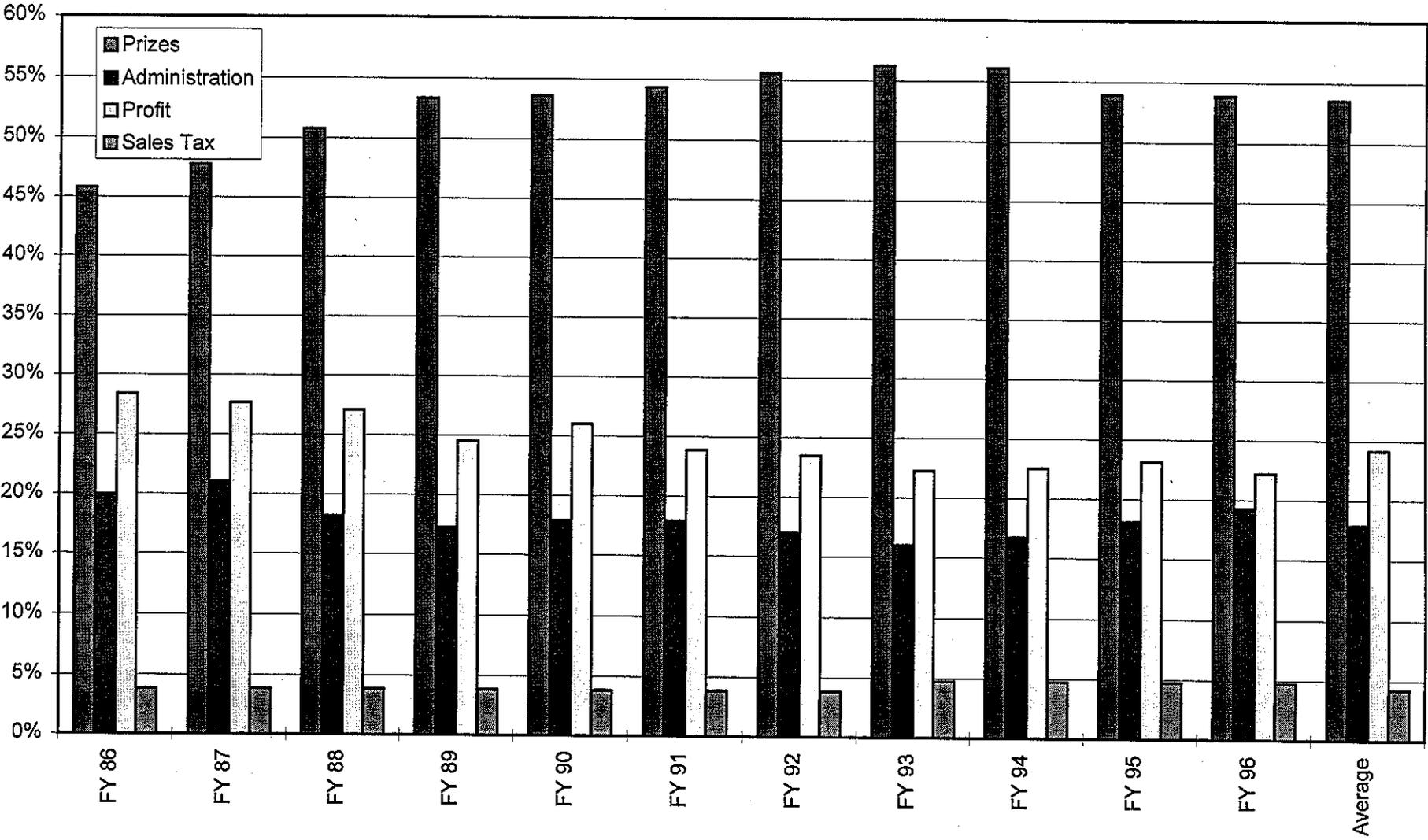
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Total	Income — ticket sales including commissions	Prizes	Admin- istration	Proceeds available from ticket sales
Total	\$26,188,324	\$15,296,376	\$1,542,857	\$10,119,378
Alabama	.	.	.	.
Alaska	.	.	.	.
Arizona	233,355	123,767	25,710	83,878
Arkansas	.	.	.	.
California	1,816,321	966,351	163,290	686,680
Colorado	269,355	167,749	27,422	74,184
Connecticut	523,746	309,072	23,252	191,422
Delaware	95,890	53,409	7,341	35,140
Florida	2,043,587	1,071,087	118,798	853,702
Georgia	1,010,159	550,493	89,375	740,582
Hawaii	.	.	.	.
Idaho	72,515	41,333	13,981	17,201
Illinois	1,373,554	794,716	52,963	525,875
Indiana	526,900	311,545	29,415	185,840
Iowa	135,553	118,502	21,929	47,222
Kansas	144,449	79,390	16,985	48,073
Kentucky	448,982	291,266	35,023	122,693
Louisiana	324,655	174,741	23,502	125,412
Maine	145,197	79,873	14,282	51,042
Maryland	932,327	507,473	38,523	386,231
Massachusetts	2,306,091	1,659,338	68,621	578,132
Michigan	1,215,917	683,995	52,108	513,814
Minnesota	311,691	192,254	59,149	60,268
Mississippi	.	.	.	.
Missouri	339,970	189,288	28,002	112,620
Montana	35,417	18,149	7,985	9,293
Nebraska	32,853	26,682	12,079	14,092
Nevada	.	.	.	.
New Hampshire	134,423	61,136	5,700	37,587
New Jersey	1,353,623	708,722	42,465	602,436
New Mexico	.	.	.	.
New York	2,176,356	1,107,476	64,001	1,004,879
North Carolina	.	.	.	.
North Dakota	.	.	.	.
Ohio	1,903,079	1,115,020	95,167	592,892
Oklahoma	.	.	.	.
Oregon	702,437	440,657	154,234	108,546
Pennsylvania	1,462,426	782,974	51,344	628,108
Rhode Island	167,711	109,803	3,168	64,740
South Carolina	.	.	.	.
South Dakota	92,290	17,722	6,861	67,707
Tennessee	.	.	.	.
Texas	2,471,555	1,532,407	11,814	827,334
Utah	.	.	.	.
Vermont	49,856	29,016	4,215	16,625
Virginia	354,889	465,630	84,536	304,723
Washington	374,580	167,780	44,208	102,582
West Virginia	131,452	75,860	14,163	41,429
Wisconsin	470,160	273,690	31,246	165,224
Wyoming	.	.	.	.

- Represents zero.

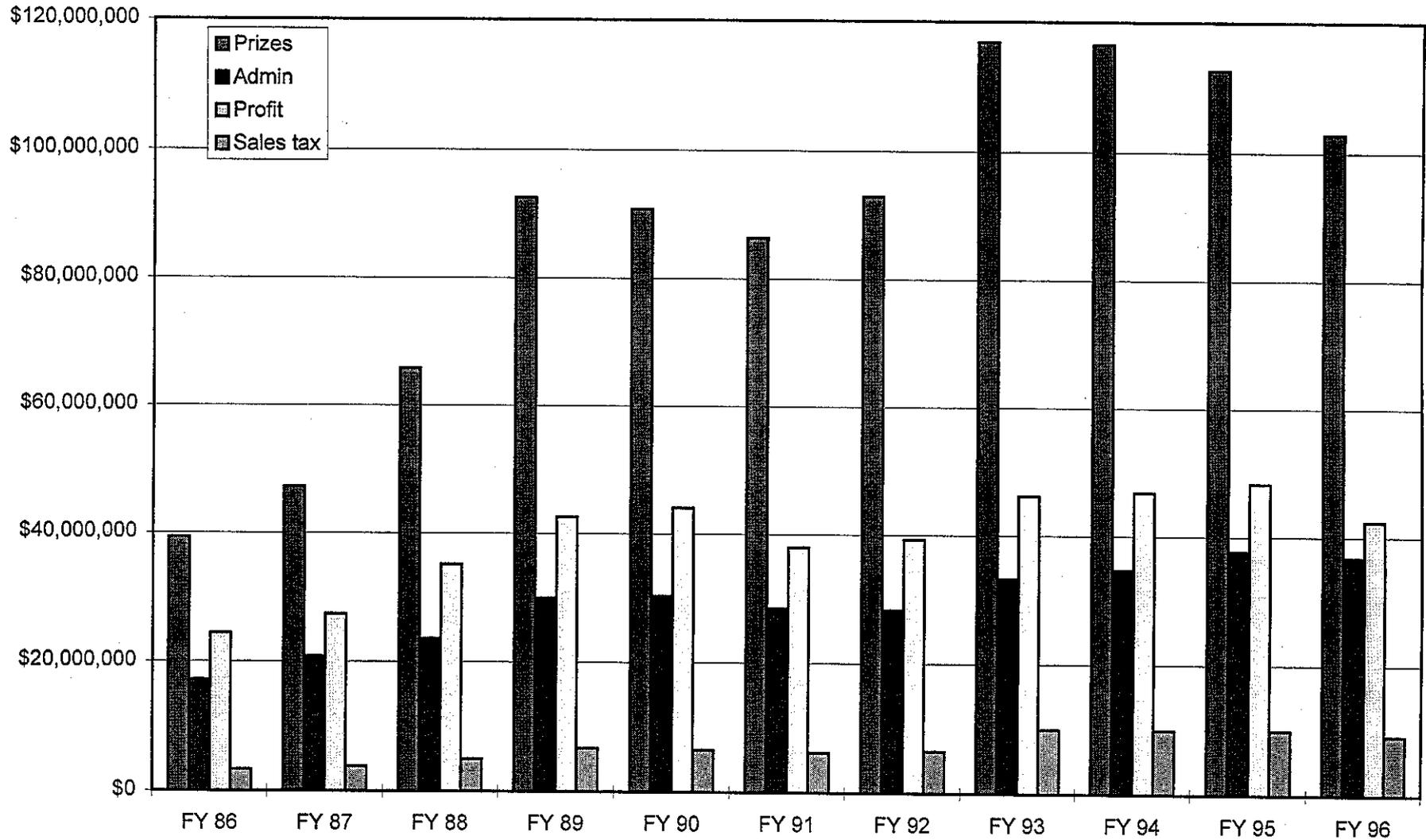
Source: U.S. Census Bureau, Department of Commerce, Web: www.census.gov.

Lottery Expenditures as a Percent of Revenue



Attachment B

Lottery Expenditures FY 1986 Through FY 1996



Attachment C

Iowa Lottery Administrative Expenses FY 1986-FY 1996

	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96	Total FY 86-FY 96
Advertising	\$3,701,250	3,040,126	3,769,013	5,360,302	6,226,311	5,153,297	4,498,597	5,524,089	5,988,531	5,592,810	5,676,073	\$54,530,399
Retail Compensation	4,397,723	5,703,034	7,135,493	9,899,129	9,622,936	9,334,364	8,925,956	11,158,476	11,434,459	11,638,200	10,960,603	100,210,373
Tickets	2,313,804	3,819,006	3,059,378	3,157,106	2,580,947	2,250,752	2,080,998	2,576,278	3,244,823	3,818,185	3,494,313	32,395,590
Vendor Compensation	156,189	821,641	2,128,443	3,117,362	3,111,695	2,592,083	3,038,479	3,675,838	3,678,503	4,909,057	5,069,599	32,298,889
Personnel	2,918,013	3,321,429	3,597,522	3,937,604	4,335,833	4,612,980	4,593,545	4,942,584	4,603,599	4,738,781	4,571,806	46,173,696
Communications	602,968	1,353,618	1,278,250	1,569,567	1,738,332	1,841,283	1,674,589	1,335,369	1,386,010	2,235,650	2,145,929	17,161,565
Rentals	328,256	324,446	338,714	351,687	365,396	447,803	796,791	1,735,812	1,888,948	2,405,931	2,709,958	11,693,742
Other Administration	2,684,891	1,983,966	2,248,022	2,428,240	2,571,311	2,292,184	2,268,250	2,413,350	2,525,588	2,342,004	2,133,486	25,891,292
Total Admin	\$17,103,094	20,367,266	23,554,835	29,820,997	30,552,761	28,524,746	27,877,205	33,361,796	34,750,461	37,680,618	36,761,767	\$320,355,546
Actual FTE Positions	N/A	N/A	N/A	N/A	N/A	132.74	125.03	117.3	113.53	111.53	108.34	

lottadmin.xls : admin data : 9/10/96 : LFB

FY 1996 Lottery Division FTE Positions

Attachment E

FY 1996 Position	Budgeted FTE	Budgeted Personnel Cost	Actual FTE	Actual Personnel Cost	FTE Under Budget	Personnel Under Budget
UTILITY WORK	1.00	\$20,386	1.00	\$19,730	0.00	\$656
CLERK IV	2.00	61,651	1.82	55,549	0.18	6,102
SECRETARY 1	5.00	160,095	5.00	156,673	0.00	3,422
SECRETARY 2	4.00	141,904	3.84	133,909	0.16	7,995
CMPR OPER 1	2.00	55,971	1.05	28,988	0.95	26,983
CMPR OPER 2	1.00	36,996	0.99	35,490	0.01	1,506
CMPR PROGRAM	2.00	41,922	0.27	10,593	1.73	31,329
PROG/ANALYST	0.00	0	0.73	30,058	-0.73	-30,058
SEN SYS ANAL	1.00	54,664	0.53	28,580	0.47	26,084
SR SY ANL S	0.00	0	0.47	27,633	-0.47	-27,633
SR SY PRG	1.00	56,945	1.00	60,489	0.00	-3,544
DTA PR ADM 1	1.00	26,789	0.07	5,732	0.93	21,057
PURC AGENT 2	0.00	0	0.27	12,839	-0.27	-12,839
STOREKPR 2	6.00	173,172	6.00	169,244	0.00	3,928
STOREKPR 3	1.00	34,920	1.00	34,259	0.00	661
MAIL CLERK 1	1.00	27,254	0.42	11,226	0.58	16,028
ACCT TECH 1	4.00	120,920	3.99	118,334	0.01	2,586
ACCT TECH 2	2.00	71,453	2.00	69,236	0.00	2,217
ACCT TECH 3	1.00	37,790	1.00	37,123	0.00	667
ACCT CLK 2	2.00	56,645	1.00	31,832	1.00	24,813
ACCOUNTANT 2	5.00	220,229	4.50	197,336	0.50	22,893
ACCOUNTANT 3	1.00	59,920	0.00	0	1.00	59,920
INVEST 3	3.00	143,857	3.00	144,112	0.00	-255
ADMIN ASST 2	1.00	40,979	0.73	28,966	0.27	12,013
EXEC OFF 1	2.00	106,762	2.00	107,422	0.00	-660
EXEC OFF 2	2.00	120,514	2.55	153,820	-0.55	-33,306
MGT ANLST 3	1.00	55,679	0.42	23,109	0.58	32,570
INFO SPEC 2	1.00	41,769	1.00	41,364	0.00	405
HR ASSOCIATE	0.00	0	0.16	5,623	-0.16	-5,623
PUB SER EX 1	1.00	49,103	1.00	48,357	0.00	746
PUB SER EX 4	2.00	157,144	2.00	155,570	0.00	1,574
PUB SER EX 5	1.00	89,045	1.00	97,225	0.00	-8,180
LOTTERY REPR	6.00	107,101	1.86	61,320	4.14	45,781
KEY ACCT EXE	1.00	44,664	1.00	43,532	0.00	1,132
LTRY MKT SUP	1.00	48,296	0.00	0	1.00	48,296
LTRY DIST RP	41.00	1,587,878	38.62	1,557,071	2.38	30,807
LTRY REG MGR	5.00	270,006	5.00	264,434	0.00	5,572
LTRY SLS MGR	2.00	122,202	1.89	103,495	0.11	18,707
LTRY ON LN M	1.00	65,664	1.00	64,540	0.00	1,124
LTRY COM COR	1.00	61,700	1.00	63,641	0.00	-1,941
PROG PLAN 3	1.00	54,819	0.82	45,395	0.18	9,424
TRANSPORT DR	1.00	31,612	1.00	32,309	0.00	-697
LTRY COMMISSIONER	1.00	104,203	0.99	116,425	0.01	-12,222
BOARD, COMM.	0.00	0	0.00	1,184	0.00	-1,184
LTRY MKTG DR	1.00	70,163	1.00	67,908	0.00	2,255
ACCOUNTANT 3	0.00	0	0.82	46,980	-0.82	-46,980
SECRETARY 3	1.00	39,104	1.00	38,701	0.00	403
EXTRA HELP	0.00	0	1.53	29,485	-1.53	-29,485
OVERTIME	0.00	136,474	0.00	16,870	0.00	119,604
ADJUSTMENTS	0.00	0	0.00	-70,664	0.00	70,664
TOTAL	120.00	\$5,008,364	108.34	\$4,563,047	11.66	\$445,317